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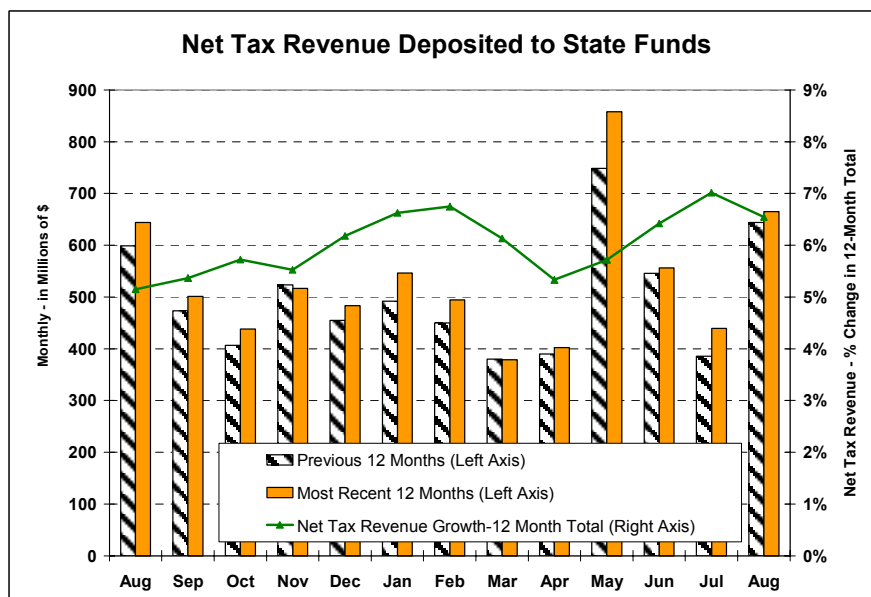
ADMINISTRATIVE SERVICES
 TIMOTHY C. FALLER

MEMORANDUM

TO: Members of the Iowa Senate and
 Members of the Iowa House of Representatives
 FROM: Jeff Robinson
 Shawn Snyder
 DATE: September 28, 2007

Twelve-month Total Net Tax Receipts Through August 31, 2007

The attached spreadsheet presents net State tax receipts for the 12-month period ending August 2007 with comparisons to the previous 12 months. August 2007 to August 2006 one-month comparisons are also presented. The source of the information is the State accounting system, including non-General Fund accounts. All accounting transactions related to taxes remitted to the State were collected, along with the refunds issued against those taxes.



Month of August Comparison

August net tax receipts totaled \$665.1 million, an increase of \$21.0 million (3.3%) compared to August 2006. Major taxes contributing to the month's change include:

- Individual Income Tax (positive \$19.1 million, 8.9%) – Gross receipts were up \$16.7 million while Income Tax refunds were \$2.4 million lower for the month. Gross receipts growth was driven by Individual Income Tax withholding receipts.
- Corporate Income Tax (negative \$13.2 million, -176.0%) – Gross receipts decreased \$2.7 million and refunds increased \$10.5 million.

Corporate net receipts have now decreased in two of the past three months.

- Sales/Use Tax (positive \$2.5 million, 0.9%) – General Fund Sales/Use Tax receipts decreased \$0.6 million and Use Tax deposited to the Road Use Fund increased \$1.4 million. Refunds issued for the month decreased \$1.7 million.
- Fuel Tax (negative \$2.6 million, - 6.9%) – Gross Fuel Tax revenue decreased \$0.6 million while refunds processed in the month increased \$2.0 million.
- Cigarette & Tobacco Taxes (positive \$16.4 million, 160.8%) – The Cigarette Tax was increased from \$0.36 per pack to \$1.36 per pack on March 16, 2007. The rate for other tobacco products also increased.

Year-over-Year Comparison – Net Tax Revenue

During the 12-month period ending August 2007, net revenue from all taxes deposited to State funds totaled \$6.281 billion, an increase of \$385.9 million (6.5%) compared to the prior 12 months. Major contributors to the change and the year-over-year dollar and percentage change include:

- Individual Income Tax (positive \$271.4 million, 11.2%) – Growth has generally been strong in all three components of Individual Income Tax receipts, withholding, estimate payments, and payments with returns. The latest 12 months were boosted by changes to the State's income tax withholding tables that started April 2005 and ended April 2007.
- Corporate Tax (positive \$42.4 million, 15.2%) – Corporate Tax has shown strong growth since 2003. The rate of growth has tapered off over the last four months.
- Sales/Use Tax (positive \$16.0 million, 0.8%) – The rate of Sales/Use Tax growth has been falling steadily over the past 12 months. Higher gas prices and declining home equity withdrawals are likely contributing to the lagging receipts of both the General Fund and the Road Use Tax Fund (vehicle sales), while the General Fund is also impacted by slowing home construction.
- Motor Fuel Tax (positive \$8.5 million, 1.9%) – Net Motor Fuel tax revenue has been flat to slightly positive over the past two years, likely the result of higher fuel prices reducing the growth in fuel demand.
- Gambling Tax (positive \$19.3 million, 7.3%) – New casino boats have started operations and existing track casinos have introduced table games during the last 12 months.
- Cigarette and Tobacco Tax (positive \$62.3 million, 62.3%) – The tax rates for cigarettes and other tobacco products were increased March 16, 2007.
- Insurance Premium Tax (negative \$31.4 million, - 24.0%) – The Insurance Premium Tax rate is being reduced over multiple years, with calendar year 2007 being the first year all premiums are taxed at the 1.0% rate. The use of tax credits may also be impacting this revenue source.

Tax Spotlight – Corporate Income Tax

Corporate Income is taxed under the authority of Chapter 422, Division III, Code of Iowa. The Tax is imposed on the net income of corporations doing business in Iowa or receiving income from property located in Iowa. Taxation of corporate income by the State of Iowa is based on the share of total company sales occurring within Iowa (single factor formula). Corporate Income Tax rates are applied as follows:

- Six percent on the first \$25,000 of net income
- Eight percent on the next \$75,000
- Ten percent on the next \$150,000

- Twelve percent on amounts above \$250,000

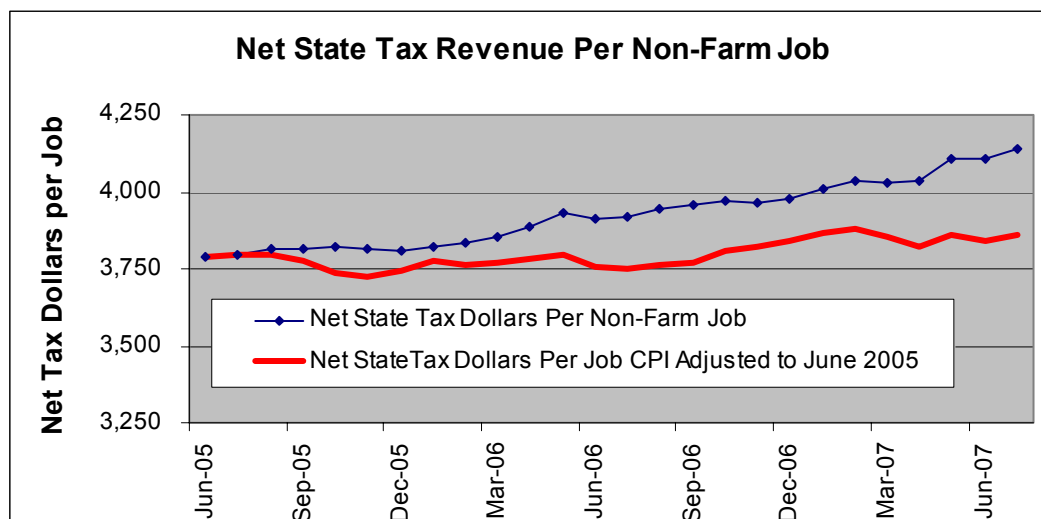
An alternative minimum tax may be imposed at an effective rate of 7.2% if it exceeds the corporation's regular tax liability. Iowa is similar to most states using the federal corporate taxable income of a corporation as the basis for Iowa Corporate Income Tax.

The Iowa Corporate Income Tax was first imposed in 1934 at a single rate of 2.0% with the passage of HF 1 (Income, Corporation, and Sales Tax Act). The rate remained at 2.0% until 1955 when it was increased to 3.0%, decreased to 2.0% in 1957, increased again to 3.0% in 1959, and increased to 4.0% in 1965. With the passage of HF 702 in 1967, the Corporate Income Tax rate was changed from a single rate to varying rates at different income levels starting at 4.0% on the first \$25,000, 6.0% on the next \$75,000, and 8.0% for amounts above \$100,000. In 1971, HF 654 increased the rates 2.0 percentage points (6.0%, 8.0%, and 10.0%). The current Corporate Income Tax rates and income levels were approved in HF 2171 (Taxation Act) during the 1982 Legislative Session.

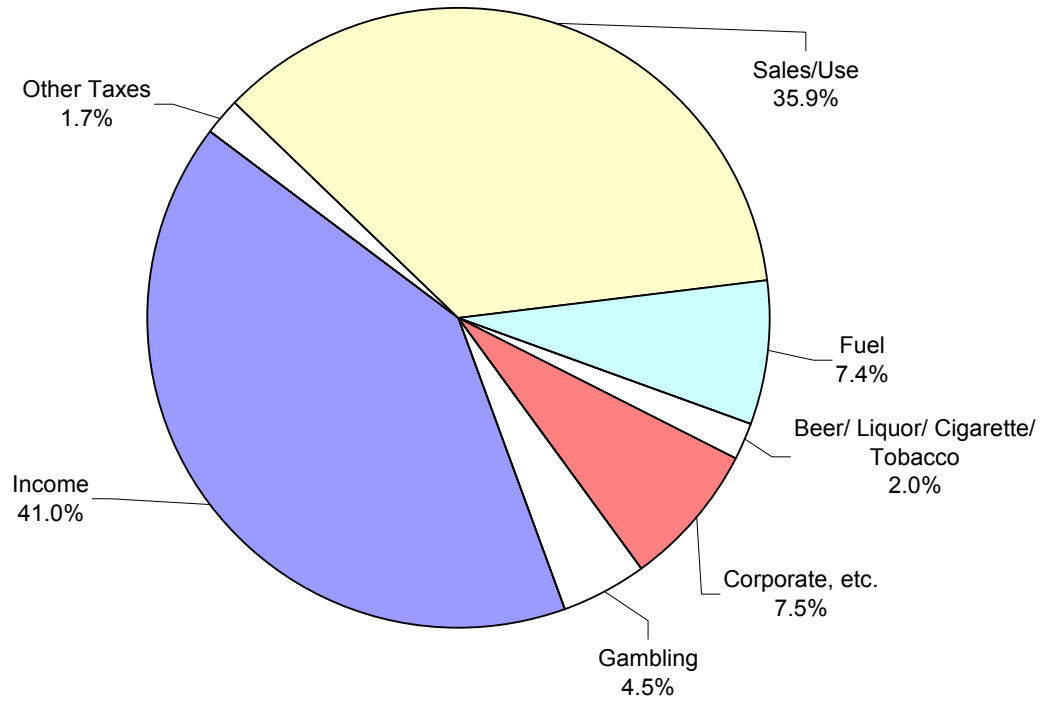
Corporate tax returns are filed by the last day of the fourth month following the end of the corporation's tax year. Cooperatives (as defined by the Internal Revenue Code) are to file a return by the 15th of the ninth month after the end of the cooperative's tax year. Nonprofit corporation returns are due by the 15th of the fifth month after the end of the nonprofit corporation's tax year. Most corporations are required to make estimated tax payments quarterly. All Corporate Income Tax revenues are deposited in the State General Fund.

Tax Revenue and Employment

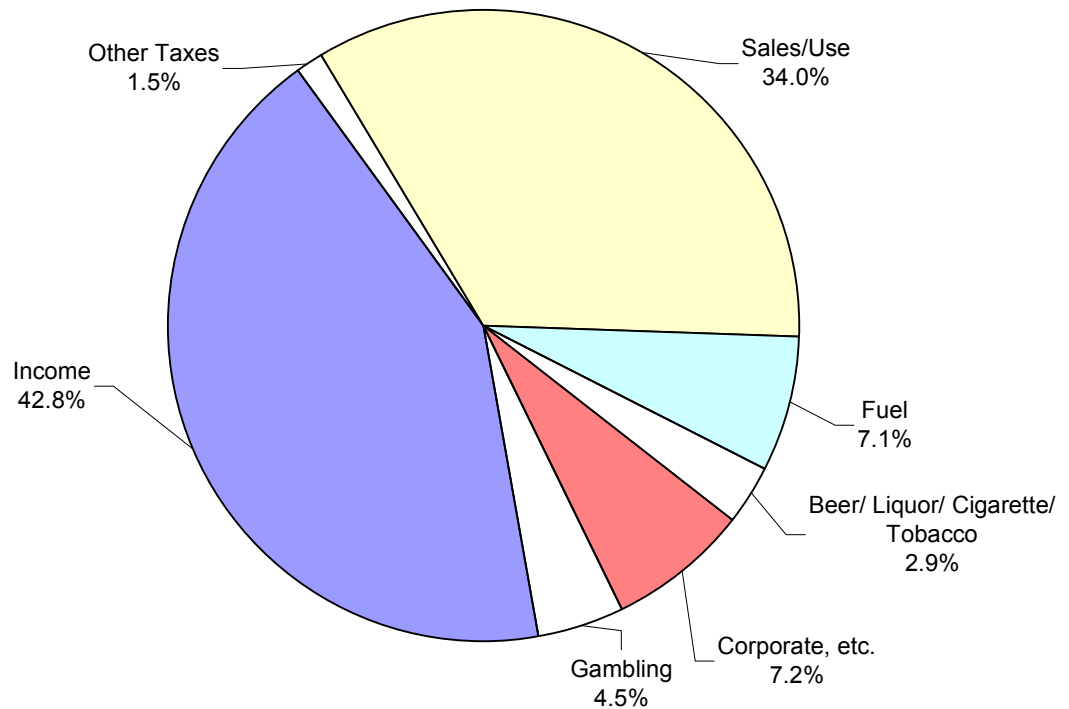
The average reading for Iowa non-farm employment over the 12 months ending July 2007 is 1,513,500, and net State tax receipts over the same 12 months totaled \$6.260 billion, or \$4,140 per non-farm job. This is \$350 (9.2%) higher than the per-job average for June 2005. Over that same time period, inflation (CPI-U) increased 7.1%. Therefore, tax revenue per job has exceeded the rate of inflation since June 2005 by roughly 1.0% per year. The following chart provides an historical perspective of tax collections per non-farm job and inflation-adjusted collections per job.



Net State Tax Revenue - Twelve Months Ending August 2006
Net Revenue = \$5.895 Billion



Net State Tax Revenue - Twelve Months Ending August 2007
Net Revenue = \$6.281 Billion



Net Tax Revenue Deposited to State Funds - Cash Basis

Dollars in millions - Columns and Rows may not add due to rounding

Net Tax by Tax Type	Previous 12-Month Period Total	Most Recent 12-Month Period Total	12-Month \$ Change	12-Month % Change	Month of August 2006	Month of August 2007	August \$ Change	August % Change
Banking	\$ 32.5	\$ 32.2	\$ - 0.3	-0.9%	\$ 0.2	\$ 0.0	\$ - 0.2	-100.0%
Beer & Liquor	19.9	20.4	0.5	2.5%	1.6	1.8	0.2	12.5%
Cigarette & Tobacco	100.0	162.3	62.3	62.3%	10.2	26.6	16.4	160.8%
Corporate Income	279.2	321.6	42.4	15.2%	7.5	- 5.7	- 13.2	-176.0%
Fuel	438.0	446.5	8.5	1.9%	37.6	35.0	- 2.6	-6.9%
Gambling	263.1	282.4	19.3	7.3%	25.9	29.0	3.1	12.0%
Individual Income	2,414.5	2,685.9	271.4	11.2%	213.8	232.9	19.1	8.9%
Inheritance	71.7	75.3	3.6	5.0%	5.9	6.2	0.3	5.1%
Insurance	130.8	99.4	- 31.4	-24.0%	56.5	51.1	- 5.4	-9.6%
Other Taxes	9.2	3.0	- 6.2	-67.4%	1.2	1.9	0.7	58.3%
Real Estate Transfer	18.8	18.4	- 0.4	-2.1%	1.6	1.7	0.1	6.2%
Sales/Use	2,117.2	2,133.2	16.0	0.8%	282.1	284.6	2.5	0.9%
Total Net Taxes	\$ 5,894.9	\$ 6,280.6	\$ 385.9	6.5%	\$ 644.1	\$ 665.1	\$ 21.0	3.3%
Gross Tax & Refunds								
Gross Tax	\$ 6,541.3	\$ 6,957.1	\$ 415.8	6.4%	\$ 675.4	\$ 705.2	\$ 29.8	4.4%
Tax Refunds	\$ - 646.7	\$ - 676.5	\$ - 29.8	4.6%	\$ - 31.3	\$ - 40.1	\$ - 8.8	28.1%
Net Tax Receipts by Fund								
State General Fund (GF)	\$ 4,972.8	\$ 5,323.9	\$ 351.1	7.1%	\$ 577.9	\$ 599.9	\$ 22.0	3.8%
Road Use Tax Fund	\$ 686.0	\$ 698.5	\$ 12.5	1.8%	\$ 58.5	\$ 57.5	\$ - 1.0	-1.7%
Non-GF Gambling	\$ 196.2	\$ 220.7	\$ 24.5	12.5%	\$ 1.2	\$ 1.8	\$ 0.6	50.0%
Other State Funds	\$ 39.7	\$ 37.4	\$ - 2.3	-5.8%	\$ 6.5	\$ 5.9	\$ - 0.6	-9.2%
Local Option Taxes *	\$ 594.4	\$ 671.0	\$ 76.6	12.9%	\$ 47.2	\$ 56.3	\$ 9.1	19.3%

* Sales, income, and hotel/motel. Distributed to local governments - not included in numbers above.

Numbers are rounded to the nearest \$0.1 million. Percentages are calculated after rounding.

Tax Categories Used in Table

Franchise (bank) Tax: Taxes on banks are deposited to the State General Fund. State Credit Union Tax is included on this line also.

Beer & Liquor Tax: Taxes on beer, liquor, and wine are deposited to the State General Fund, the Liquor Control Fund, and a small amount is deposited to a Department of Economic Development fund for wine promotion.

Cigarette & Tobacco Tax: Cigarette and the tobacco products tax revenue is deposited to the State General Fund.

Corporate Income Tax: All Corporate Tax is deposited to the State General Fund.

Motor fuel Tax: All Motor Fuel Tax is deposited to one of two road use funds, with the exception of tax revenue from the sale of aviation and marine fuels.

Gambling Tax: The first \$60.0 million of Gambling Tax revenue each fiscal year is deposited to the State General Fund. Other funds receiving deposits of Gambling Tax revenue include the School Infrastructure Fund, the Rebuild Iowa Infrastructure Fund, The Gambler's Assistance Fund, the County Endowment Fund, the Endowment for Iowa's Health Account, and the Vision Iowa Fund.

Individual Income Tax: Most Individual Income Tax revenue is deposited to the State General Fund. Other destinations include the Workforce Development Fund (\$4.0 million) and Child Daycare Fund (\$2.6 million). In addition, several economic development programs are financed by individual income tax withholding. In those instances, the employer does not remit the tax withheld from employees and it is never deposited to a State fund. That revenue is not included here.

Inheritance Tax: All Inheritance Tax is deposited to the State General Fund.

Insurance Premium Tax: All Insurance Premium Tax is deposited to the State General Fund.

Other Taxes: Other taxes include Brucellosis Eradication Property Tax (deposited to a Department of Agriculture and Land Stewardship's fund), Drug Stamp Tax (State General Fund), Utility Replacement Property Tax (State General Fund), and Car Rental Tax (Road Use Tax Fund). Other taxes also include a suspense account used to hold tax deposits prior to determining the correct tax type for the money and tax revenue transferred by the Department of Revenue to a separate account to fund tax collection activities (tax gap).

Real Estate Transfer Tax: Real Estate Transfer Tax is collected by counties. Counties retain 17.25% and remit the remainder to the State. The State deposits 95.0% of its share to the State General Fund and 5.0% to the Shelter Assistance Fund.

Sales/Use tax: General Sales/Use tax is deposited to the State General Fund, while most vehicle Use Tax is deposited to the Road Use Tax Fund. An annual amount of \$17.0 million of vehicle Use Tax is deposited to the Underground Storage Tank Program.

Local Option Taxes: Local option taxes are presented at the bottom of the table and are not included in the numbers above. Local option taxes include School Infrastructure Local Option Sales Tax (SILO), Local Option Sales Tax (LOST) for local government finance, Local Option Income Surcharge for schools, and Hotel/Motel Tax.

Report Database

The database for this report is the State accounting system. If transactions are incorrectly coded in the system as tax revenue or tax refunds, the numbers presented here will be impacted.